China

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China Budget 2024: fine-print details are more interesting

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- Market reaction shows investors are not impressed by China's Budget 2024.
- "Around 5%" growth target: same same but different.
- Four fine-print details warrant attention including China's implied efforts to reflate the economy, central government's plan to leverage up, more supports to job creation and income growth and mechanism how to deal with non-economic policies.

China's 2024 budget has garnered significant coverage in the global media, but market reaction suggests that investors may not be so impressed. Nonetheless, upon closer examination of the government work report, several noteworthy fine-print details emerge, warranting investor attention.

Let's start with the growth target. China has set its growth target at "around 5%" for 2024, a figure largely aligning with market expectations. However, this target appears more ambitious compared to the similar "around 5%" target set for 2023, primarily due to a stronger base effect this year. Assessing the two-year average basis, the 2023 "around 5%" target implies a 4.1% two-year average growth, whereas the 2024 "around 5%" target implies a 5.1% two-year average growth, necessitating increased policy support compared to the previous year.

Achieving this target hinges on several factors, including the need for China to enter a sustainable phase of restocking and a narrowing decline in real estate investment. However, current indicators such as the Purchasing Managers' Index (PMI) suggest a lack of concrete evidence regarding restocking, alongside persistently weak property transactions. Consequently, a more assertive approach to monetary and fiscal policy support is imperative.

Fine-print 1: implied efforts to reflate the economy

China maintained its fiscal deficit target as a percentage of GDP at 3%, unchanged from previous years, signaling a commitment to fiscal discipline amidst debt constraints. Market expectations regarding the fiscal deficit target have gradually adjusted downward in recent months, from approximately 3.5% to 3%. The decision to keep the target unchanged suggests that China is unlikely to pursue aggressive stimulus measures. However, the absolute size of the fiscal deficit target has increased by 180 billion yuan to 4.06 trillion, surpassing 4 trillion for the first time in history. Based on this target and the 3% deficit-to-GDP ratio, the implied nominal GDP size would be around 135 trillion yuan. This implies China's aspiration for nominal GDP growth to reach approximately 7.4%, a significant acceleration from the 4.6% growth observed in 2023, indicating its intent to reflate the economy.

Fine-print 2: central government to leverage up

Furthermore, there has been an improvement in the fiscal structure. The 180 billion yuan increase in the fiscal deficit this year will be fully financed by the central government, with the central government accounting for 82.3% of the total deficit, the highest proportion in recent years. This underscores the central government's pivotal role in leveraging efforts to alleviate pressure on highly leveraged local governments, signaling a more balanced and coordinated approach to fiscal management.

One of the notable change this year is the issuance of 1 trillion yuan in ultra-long term special bonds. Premier Li mentioned that China intends to continue issuing 1 trillion yuan worth of these bonds annually over the next few years. This regular issuance of special bonds highlights a consistent strategy for the central government to increase leverage.

From a broader fiscal perspective, China is poised to wield greater fiscal spending power this year to support economic growth. This includes an additional 180 billion yuan allocated towards the fiscal deficit target, an extra 100 billion yuan for local government special bonds, and the utilization of funds carried over from last year's special bond issuance.

Fine-print 3: jobs and income

Within the domain of livelihood support, the government report has introduced two refinements. Firstly, it has adjusted the urban job creation target to "over 12 million new jobs," a subtle revision from the previous target of "around 12 million new jobs." Secondly, it has revised the income growth target to emphasize that "residents' income growth should synchronize with economic growth," departing from the previous goal of income growth being "basically synchronized with economic growth." These adjustments come at a time when the number of college graduates is poised to reach a record high of 11.79 million this year, indicating China's heightened commitment to bolstering youth employment. Ensuring a more resilient income growth trajectory holds paramount importance in stimulating consumption.

Concurrently, there is a concerted push towards encouraging the exchange of consumer goods for new ones. Anticipated subsidies for trade-in programs this year are expected to exert a significant impetus on the consumption of household appliances and automobiles, fostering economic dynamism and incentivizing consumer spending.

Fine-print 4: integrating non-economic policies

Other notable shift in China's policy direction is the heightened focus on enhancing the consistency of macroeconomic policy orientation, with the aim of establishing a stable, transparent, and predictable policy environment.

The government work report emphasizes the need to strengthen coordination and cooperation across multiple fronts, including fiscal, monetary, employment, industrial, regional, technological, and environmental policies, all aligned with the overarching development agenda.

Moreover, there is a call for integrating non-economic policies into the assessment of macroeconomic policy orientation consistency, ensuring a comprehensive approach to policy evaluation. To facilitate this, China plans to establish an effective coordination mechanism, mandating thorough evaluations by various State Council departments before policy introduction. These evaluations will consider the implications for overall stability and high-quality development. Additionally, a policy document evaluation mechanism led by the National Development and Reform Commission (NDRC) will conduct further assessments, underscoring a commitment to holistic policymaking and strategic alignment across government agencies.

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